

VZCZCXYZ0156
PP RUEHWEB

DE RUEHMO #0623/01 0651346
ZNY CCCCC ZZH
P 051346Z MAR 08
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 7018
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHDX/MOSCOW POLITICAL COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 000623

SIPDIS

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
EUR/CARC, SCA (GALLAGHER, SUMAR)
DOE FOR HARBERT, HEGBORG, EKIMOFF
DOC FOR 4231/IEP/EUR/JBROUGHER

E.O. 12958: DECL: 03/03/2018
TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: GAZPROM CUTS GAS TO UKRAINE BY ANOTHER 25%;
SUPPLIES TO EU SAFE FOR NOW

REF: A. KYIV 471
[1](#)B. KYIV 469
[1](#)C. MOSCOW 605

Classified By: Ambassador William J. Burns for Reasons 1.4 (b/d)

SUMMARY

[1](#)1. (SBU) Gazprom has announced that as of 8:00 pm Moscow time on March 4th it had cut gas supplies to (not through) Ukraine by another 25%, bringing the total reduction of gas to Ukraine in the latest episode of its ongoing dispute (reftels) to 50%. Gazprom demands payment of some \$600 million it claims it is owed. Ukraine's gas company, NaftoHaz, reportedly disputes (without further specificity) the exact amount and nature of the debt. It has now suggested that gas supplies to the EU may be threatened if the dispute is not resolved, implying it would divert gas destined for the EU to the Ukrainian domestic market. EU interlocutors, along with most analysts, believe that given gas available in storage, EU supplies are safe for the coming weeks. End summary.

ANOTHER 25% CUT AS DISPUTE DRAGS ON

[1](#)2. (SBU) At 8:00 pm Moscow time on March 4th, Gazprom cut gas supplies to Ukraine by another 25%, bringing to 50% the total cuts to Ukrainian supplies from Gazprom in the latest dispute over debts and middlemen (reftels). Gazprom has reportedly suggested further reductions in gas to Ukraine are possible if the current dispute continues. The company demands payment of \$600 million in arrears it claims it is owed from Ukrainian gas company NaftoHaz for 2008 gas deliveries to Ukraine.

[1](#)3. (C) In a March 4th lunch with Emboffs and representatives from the British and French embassies, Gazprom representatives stressed that NaftoHaz must pay its debts before full gas flows are restored. They added that all options for future gas deliveries, including direct sales by Gazprom to NaftoHaz, are on the table, provided NaftoHaz pays what it owes. They noted, however, that this dispute has already "gone to the highest levels" (Putin and Yushchenko)

and their February agreement calls for establishment of a new intermediary.

14. (C) Ukrainian Prime Minister Tymoshenko has publicly called for elimination of intermediaries in the gas trade and there is widespread speculation in the press and among industry watchers in Moscow that this could be behind the latest cutoff. NaftoHaz has publicly blamed the problem of debt payments on the murky practices of the intermediaries. They have also publicly disputed the amount and nature of the debt, though without providing any details. NaftoHaz's Moscow's office refused to take our call or meet with us. Ukrainian Embassy First Secretary Yaroslav Dubovich told us March 5th that the company accepts that it owes "some debt." However, he said NaftoHaz objects to the billing practices of the intermediaries, including especially their use of "insufficient documentation" to justify their bills, and therefore questions the amount of the debt.

EUROPEAN GAS SUPPLIES SAFE FOR NOW

15. (C) Gazprom maintains that it will continue to send 100% of contracted gas to the EU and that the EU should not see any reduction in its supplies from Russia. Gazprom's International Affairs Director, Ivan Zolotov, told us March 4th that Gazprom estimates EU supplies should be guaranteed without disruption for "a week to ten days," due to sufficient gas in the pipeline system and in Gazprom storage in Austria. He said Gazprom has further contingency plans, including pumping more gas through the northern route and swapping Russian gas for LNG to be delivered to the EU.

16. (C) However, yesterday, for the first time in this latest dispute, NaftoHaz suggested that future gas supplies to the EU may be threatened if Ukraine cannot meet its domestic needs. Dubovich at first told us that "Ukraine guarantees that gas in transit to Europe will not be disrupted." However, he then backtracked by adding "...unless our industries find themselves without sufficient supplies." Various analytical and press reports indicate that EU supplies should be safe for up to several weeks, especially given the mild winter and relatively full storage facilities. However, if the dispute drags on and supplies are disrupted, Gazprom indicated to us that it may face "heavy fines" if it is unable to fulfill its European contracts. (Comment: This could in turn become yet another issue in this continuing saga if Gazprom demands reimbursement from Ukraine.)

17. (C) German Embassy Commercial Counselor Jorg Kirsch told us March 5th that neither Germany nor the EU is especially worried about short-term supplies. He said German companies E.On and Wintershall have indicated that gas in storage should allow for uninterrupted supplies for at least 30 days and perhaps as long as 3 months -- "enough to get us through the winter."

RESOLUTION UNCLEAR

18. (C) There seems to be little consensus as to when this dispute might be resolved. Dubovich was optimistic that it could be settled very soon, "perhaps by the end of the week." Kirsch was not so sure, believing the dispute has more to do with the Yushchenko-Tymoshenko political rivalry than with NaftoHaz's ability to pay. Gazprom representatives at the March 4th lunch supported that view as well, while maintaining that for Gazprom this was simply about the money. "Gazprom cannot set a precedent of non-payment of bills," Zolotov said.

9 (SBU) The IEA has released a statement suggesting a neutral arbiter in this ongoing dispute. The statement strongly endorses the need for greater transparency in the Russia-Ukraine gas trade, while mildly chastising Russia's "harsh tactics." The IEA also calls Russia "an extremely

reliable gas supplier to Western Europe for over 40 years," but notes that an "interruption to Western consumers would severely tarnish" this reputation.

COMMENT

¶10. (C) Greater transparency remains the key to resolving this dispute and avoiding future ones. In all the murkiness, what seems clear to us is that the role of the intermediaries in the Russia-Ukraine gas trade is not a positive one. Perhaps a neutral third party, such as the IEA, could be prevailed upon to arbitrate the dispute with all concerned opening their accounts to outside scrutiny.
BURNS